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UNCLAS SECTION 01 OF 02 MADRID 002484

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TAGS: [ENRG](#) [ECON](#) [SP](#)

SUBJECT: SPAIN: ONGOING PROBLEMS WITH THE ENERGY SUPPLY

REF: A. 05 MADRID 01676

[B](#). 05 MADRID 00649

[C](#). 05 MADRID 00393

[D](#). 04 MADRID 04613

[E](#). 04 MADRID 04241

[1](#). SUMMARY: Spain's national energy grid, Red Electrica de Espana (REE), was forced to temporarily cut power to hundreds of businesses in various parts of Spain in June due to record demand and inadequate supply. The businesses affected have contracts with the electricity supplier that allow for interruption of service in return for lower prices. REE officials cite reduced output due to repairs, drought and low winds as the primary cause for the shortfall. The Spanish energy grid is currently operating near maximum capacity, due to a 43 percent increase in energy consumption over the last seven years, and this problem is likely to continue into the near future. As a result, the Spanish government will likely have to strike a better balance between the need for increased energy prices and the resulting inflationary economic impact of such an increase. END SUMMARY.

[2](#). Red Electrica de Espana (REE) interrupted the power supply to hundreds of Spanish businesses in north central Spain on June 21 and 22 for three hours in order to avoid an overload of the energy grid. During the peak hours on those days, energy demand reached record levels of 37,400 MW and 38,600 MW, respectively. REE also had to cut power to a number of companies in Catalunya on June 27 and 28, despite the fact that total demand was significantly lower, at just over 36,000 MW. The companies that had their supply interrupted had contracts with REE that afforded them lower prices (between 15 and 25 percent lower) in return for agreeing to have their power supply interrupted subject to certain conditions. In all, about two hundred businesses in Spain have this type of contract.

[3](#). REE cited a number of factors that contributed to the decision to interrupt the power supply to various businesses. The main reason was a combination of record demand and reduced supply. Electricity consumption in Spain has increased 43 percent between 1997 and 2004, and is already up 7.3 percent for 2005. In addition to increased demand, REE officials cited current problems with the power supply. Dozens of Spain's energy facilities, including two of Spain's nine nuclear power plants (currently closed for repair and renovations), are experiencing output problems, resulting in a 7,300 MW reduction in available power supply. Renewable energy sources, such as wind and hydroelectric, have also experienced a reduction in output due to environmental factors. Low winds have resulted in a reduced yield of 3,000-3,500 MW from wind power facilities, almost one-third their potential production. Hydroelectric facilities, which currently have water reserves of 54.9 percent of capacity due to an ongoing drought, are supplying power at less than half of their potential (7,864 MW out of 16,000 MW). Finally, REE cited a temporary problem with the energy grid connection with France, where a decrease in output resulted in a reduction of 1,000 MW in the Spanish grid.

[4](#). Spanish power companies have attributed some of the fault for this situation to sectoral issues, primarily the government-regulated fees that they are allowed to charge. According to these companies, the regulated electricity fee fell 32 percent between 1996 and 2005, harming electricity suppliers ability to increase output to meet growing demand. Company sources state that Spain's electrical suppliers invested EUR 15.5 billion (18.6 billion USD) in the distribution network between 2001-2005 and are calling for increased rates to help finance further network modernization. In addition to lower revenues, REE sources cited higher production costs due to recent increases in the price of petroleum and natural gas as an aggravating factor.

//COMMENTS//

[5](#). The first hints of this ongoing problem appeared last year, when problems with the natural gas supply forced Spain's electrical companies to cut power to numerous businesses. Spanish Ministry officials attributed the

problem to the lack of output from two of Spain's nuclear reactors, which were shut down for repairs and renovations. However, recent studies show that Spain's margin between the potential output of the power grid and the maximum electricity demand has almost disappeared. Industry sources state that Spain should have potential output of 10 percent more than the maximum demand to be within acceptable safety margins. REE sources have publicly stated that this problem is temporary, and will be alleviated by repairs to power facilities and an resumption of normal grid connections with France. However, the most recent interruptions in service come at a time when the energy demand was significantly lower than the record set the previous week.

16. As stated in reftels, rising demand is likely to put pressure on the Zapatero government to take further action. One obvious option is to raise energy prices in the hopes that increased fees will curb electricity demand growth and the resulting extra revenue will allow electrical companies to upgrade the power grid. However, such a proposal is likely to encounter strong resistance from Vice President and Minister of the Economy Solbes, who would find the resulting inflationary impact on the economy undesirable. Another option is to pursue the development of other energy sources (i.e. increase supply). Nuclear, which is potentially sufficient for Spain's energy needs, is politically untenable due to strong public opinion against its use (reftel E). Coal, abundant in Spain and relatively inexpensive, results in high levels of pollution and would run counter to current EU policy (reftels A and C). The GOS is encouraging the use of renewable energies, such as solar and wind, but the technology is not sufficient at this time to meet market demand (reftel D). Natural gas, relatively clean and affordable, appears to be the GOS' choice for future production as demonstrated by its commitment to the construction of an underground gas pipeline between Spain and Algeria (reftel B). However, Spain is experiencing some difficulty in competing for natural gas resources in the global market due to government-imposed price restrictions. Therefore, it is increasingly likely that Spain will have to raise electricity prices to depress the demand growth while simultaneously strengthening various production capabilities.

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